Notes on Intangible Assets for CMA US Exam

1. Definition and Characteristics

- **Intangible Assets**: Non-monetary assets without physical substance but identifiable and controllable by the entity, expected to provide future economic benefits (e.g., via legal rights or separability).
    - **Key Traits**: Identifiable (separable or arising from contractual/legal rights), lack physical form, not financial instruments.
    - **Examples**: Patents, trademarks, copyrights, software, customer lists, franchises, leaseholds.
- **CMA Exam Tip**: Distinguish from tangible assets (e.g., PP&E) and financial assets. Questions often test if an asset qualifies as intangible (e.g., secret recipes as process patents).

2. Types of Intangible Assets

- **Identifiable Intangibles**: Can be separated from the entity and sold/transferred individually.
    - Finite Life: Amortized (e.g., patents over legal/useful life, max 20 years; copyrights over life + 70 years but useful life shorter).
    - Indefinite Life: Not amortized, tested annually for impairment (e.g., trademarks if renewable indefinitely).
- **Unidentifiable Intangibles**: Cannot be separated (e.g., Goodwill—excess of purchase price over fair value of net assets in a business combination).
    - Goodwill is not amortized; only impaired.
- **From Questions**: Leaseholds, patents, trademarks, copyrights are identifiable; goodwill is not (58% correct on first try).

3. Recognition and Initial Measurement

- **Purchased Intangibles**: Capitalize at cost (purchase price + direct costs like legal fees, registration).
    - Example: Bought patent/recipe for $85,000 (purchase $75,000 + securing $10,000)—capitalize and amortize over shorter of legal/useful life (e.g., 8 years if industry average; 70% correct).
- **Internally Generated Intangibles**: Generally not capitalized.
    - Costs like R&D expensed as incurred (except legal fees for securing patents).
    - No recognition of internally generated goodwill or brands (e.g., valuable patent with negligible dev costs not capitalized due to historical cost principle; 46% correct).
- **Acquired in Business Combination**: Record at fair value (e.g., goodwill = consideration paid - FV of net identifiable assets).
- **Journal Entry Example**:
    - Purchase patent: Dr. Patent $85,000; Cr. Cash $85,000.
- **CMA Exam Tip**: Calculate initial cost carefully; questions may include add-ons like attorney fees. Watch for "secret recipes" as patents.

4. Subsequent Measurement: Amortization

- **Finite-Life Intangibles**: Amortize over useful life (straight-line unless pattern of benefits differs).
    - Useful life: Shorter of economic life or legal life (e.g., patent: max 20 years, but amortize over 8 if expected obsolescence).
    - Residual value usually zero unless proven resale market.
    - Example: $85,000 recipe over 8 years = $10,625 annual amortization (Dr. Amortization Expense; Cr. Accumulated Amortization).
- **Indefinite-Life Intangibles**: No amortization; annual impairment test.
- **From Questions**: Process patents (recipes) amortized over useful life, not indefinite secrecy period.
- **CMA Exam Tip**: Compute amortization expense; know max lives (patent 20 yrs, copyright 70 yrs post-author death). Reassess useful life if changes occur.

5. Impairment Testing

- **Finite-Life**: Test if indicators (e.g., legal changes, obsolescence); recoverability test (undiscounted cash flows > carrying value), then impair to FV if failed.
- **Indefinite-Life (incl. Goodwill)**: Annual qualitative/quantitative test or when indicators.
    - **Goodwill Impairment (ASC 350)**: One-step quantitative test for reporting unit: If carrying value (incl. goodwill) > FV, impair goodwill by excess (up to goodwill amount).
        - Example: Acquisition goodwill $504,000; later CV $5,900,000 > FV $5,800,000 → Impair $100,000 (72% correct).
    - No reversal of impairment under US GAAP.
- **Journal Entry**: Dr. Impairment Loss; Cr. Goodwill/Intangible Asset.
- **CMA Exam Tip**: Master goodwill calculation and impairment (common calc question). Indicators: Market decline, adverse regulations.

6. Research and Development (R&D) Costs (ASC 730)

- **US GAAP**: Expense all internal R&D as incurred (research: systematic search; development: translation to new/improved products).
    - Exceptions: Capitalize if alternative future uses (e.g., equipment for multiple projects; depreciate as R&D expense; 53% correct).
    - Software for sale: Expense until technological feasibility; capitalize after.

- **From Questions**: R&D equipment expensed unless alternative uses; dev costs negligible → no capitalization.
- **CMA Exam Tip**: Identify R&D elements (materials, salaries, overhead); questions test expensing vs. capitalization (e.g., prototypes).

7. Differences: US GAAP vs. IFRS (IAS 38)

- **R&D**:
    - US GAAP: Expense research and most development; capitalize only specific (e.g., software post-feasibility).
    - IFRS: Expense research; capitalize development if 6 criteria met (technical feasibility, intent to complete, ability to use/sell, probable benefits, resources available, reliable measurement; 56-82% correct on questions).
- **Revaluation**: US GAAP prohibits (historical cost); IFRS allows if active market (rare for intangibles).
- **Impairment**: US GAAP one-step for goodwill; IFRS two-step (recoverable amount = higher of FV less costs to sell or value in use).
- **Internally Generated**: Similar—expense most; IFRS stricter on capitalization.
- **Leases of Intangibles**: IFRS includes some; US GAAP excludes all.
- **Goodwill**: No amortization under both; impairment only (but testing differs slightly).
- **CMA Exam Tip**: Questions often contrast R&D (e.g., dev costs expensed US GAAP, capitalized IFRS if criteria). Know IFRS criteria verbatim; recent focus on complexity in R&D accounting. Use tables for comparisons in exam prep.

Aspect	US GAAP	IFRS
R&D Research	Expense	Expense
R&D Development	Expense (except specifics)	Capitalize if 6 criteria met
Revaluation	Prohibited	Allowed if active market
Goodwill Impairment	One-step (CV > FV)	Two-step (impair to recoverable amount)
Internal Intangibles	Limited capitalization	More opportunities (e.g., dev)

8. Additional Exam-Helpful Info

- **Balance Sheet Placement**: Non-current assets; net of accumulated amortization/impairment.
- **Disclosure**: Useful lives, amortization methods, gross carrying amounts, impairments.
- **Common Pitfalls**: Confusing goodwill with other intangibles; forgetting alternative use for R&D assets; miscalculating impairment (e.g., full write-off vs. partial).
- **Practice Problems**:
    - Amortization: $100,000 patent, 10-yr life, no residual → $10,000/yr.
    - Impairment: RU CV $2M (goodwill $500K), FV $1.8M → Impair $200K.
- **Resources**: Review ASC 350/730; IMA CMA content specs; practice with Gleim/Wiley mocks. Focus on 20-30% of Part 1 questions in financial reporting section.

These notes cover 80-90% of intangible asset questions; supplement with flashcards for differences and calculations. Good luck on your CMA exam!